

**Statement of Thomas C. Dorr, Under Secretary for Rural Development
Before the House Agriculture Committee
Conservation, Credit, Rural Development and Research Subcommittee
Hearing on USDA Rural Development Programs
March 30, 2006**

Mr. Chairman, Members of the Committee:

Thank you for the opportunity to testify today. I last appeared before the House Agriculture Committee three years ago to discuss new generation cooperatives. It is a privilege to return today to discuss USDA Rural Development's mission and programs.

As we approach the next Farm Bill, all of us recognize that there are difficult choices to be made. Last year, USDA conducted over 50 listening forums around the country to invite the broadest possible participation in this debate. I know that many members of this Subcommittee are participating in similar hearings themselves. Interest is high, the discussion has been spirited, and there are, again, some very difficult choices to be made.

This will be a lengthy and collaborative process. Earlier this week, Secretary Johanns shared USDA's summary of the nearly 5,000 comments we received during the forum process. We look forward to working with you over the next year to craft a Farm Bill that responds credibly and effectively to the challenges and opportunities presented by the public in those thoughtful comments.

I cannot prejudge that process. However, from the standpoint of USDA Rural Development, let me say that rural America enjoys enormous opportunities, and it is a privilege to work with you to foster economic development and improve the quality of life in rural communities.

USDA Rural Development administers over 40 programs. We provide technical assistance and funding for rural infrastructure, single and multi-family housing, community facilities, and business development. Indeed, USDA Rural Development can -- as we often remark in passing -- literally build an entire community from the ground up.

In FY 2006 we will provide approximately \$17.4 billion in investments driven by approximately \$1.96 billion in budget authority. This \$17.4 billion includes two significant non-recurring expenditures: supplemental funding for hurricane relief and funding for the guaranteed underwriting program.

Absent these two factors, the President's budget request for 2007 proposes \$1.44 billion in budget authority and a program level of \$13.7 billion. This is comparable to our average program level during the first five years of the Bush Administration and represents a significant increase over the investments of the preceding five-year period. I deeply appreciate the continuing commitment of President Bush and Congress to our mission and the confidence demonstrated by this generous level of support.

The numbers, however, do not tell the whole story. Our success is measured by water lines laid, hospitals built, and broadband connections made. Success is businesses started and jobs created. It is families moving into new homes, and affordable rental housing in small towns. Whether it is an ethanol plant or industrial park, a day care center, a critical care medical facility, or a mainstreet business, the investments made by USDA Rural Development are building a better future for all rural Americans.

Overview

With over 40 programs to discuss, I will not attempt to address each of them at length today. I have attached to my written statement a very brief summary of our programs. I would instead like to take my time with you today to discuss some broader strategic principles and opportunities confronting USDA Rural Development.

Rural America faces both challenges and dramatic new opportunities. As we approach the next Farm Bill, it is particularly important to recognize how rural America has changed. Traditional U.S. farm policy originated during the Great Depression and was oriented primarily toward farm stabilization, supply management, and commodity price supports. That model has evolved over time, but at least with regard to commodity programs, the basic template has remained largely in place. In the meantime, however, everything else in rural America has changed: rural electrification; mechanization and farm consolidation; dramatic productivity gains; the green revolution and the globalization of commodity agriculture; heightened competition; modern communications, and the erosion of rural isolation.

From the standpoint of USDA Rural Development, I want especially to note the historically unprecedented and continuing diversification of the rural economy. Today, rural no longer means just farm.

As we enter the 21st century, therefore, rural policy has been redefined. Whatever Congress ultimately chooses to do in the next Farm Bill with regard to commodity programs, trade, and other potentially contentious issues, we should keep in mind that the role of USDA Rural Development has already changed significantly. A generation ago, our predecessor agencies were often perceived as the lender of last resort in financially underserved markets. Today we are oriented to new growth opportunities and function as an investment bank in a globally competitive market. We are guided by several strategic principles:

- First, we recognize that rural policy today is much broader than farm policy. Approximately 60 million people live in rural America. Most of them do not farm. Further, the great majority of farm families are dependent on off-farm income. The implications are clear:
 - As the American Farm Bureau recently commented in its Making American Agriculture Productive and Profitable (MAAPP) report:

“Farmers are more dependent on rural communities than rural communities are dependent on farmers.”

- Or as the Farm Credit Council's January 2006 report, 21st Century Rural America: New Horizons for Agriculture phrases the point: *"The overwhelming majority of all farmers, but especially small operators, rely on off-farm employment to stay in agriculture."*

Farm policy, clearly, can no longer stand in isolation. For USDA Rural Development, strong rural businesses, the availability of jobs, and small towns able to attract and retain young families are core policy concerns.

- Secondly, sustainable rural development must be market driven, not program driven. Government's resources are limited. While government programs can play a role, entrepreneurial drive, private investment, and local ownership are essential to sustainable development and wealth creation in rural America.

We must therefore find ways to unleash and empower the untapped human and equity resources that exist in rural America. The nation's Farm Balance Sheet is illustrative. According to USDA's February 2006 estimates, farm sector equity in the United States is expected to exceed \$1.45 trillion this year, with a debt to equity ratio of just 15.1 percent. Clearly, rural America commands significant financial resources. What is needed are investment opportunities and business models that harness these resources to a strategy for sustainable development and wealth creation in rural communities -- and entrepreneurs to make it work.

From an economic development perspective, we recognize that rural America enjoys significant comparative advantages rooted in a lower cost of living, a high quality of life, and a clean environment. There are also significant emerging opportunities such as energy, biobased and value-added products, and broadband.

We are, therefore, leading from a position of strength, not weakness. The future is bright. Our mission is to provide technical assistance and investment capital to assist rural entrepreneurs in seizing these new opportunities for economic opportunity and wealth creation.

Our funding emphasis continues to shift from grants and direct loans to loan guarantees. These generate a multiplier on the taxpayers' investment and allow us to serve more people at any given level of budget authority. This year, for example, \$1.96 billion in budget authority that provides \$17.4 billion in program level implies a Rural Development-wide multiplier of almost 900 percent.

Similarly, in the President's FY 2007 budget request, Rural Development represents just 1.5 percent of USDA's total budget authority but generates nearly 11.5 percent of USDA's projected program level. Clearly, in terms of budget authority, guaranteed loans allows USDA Rural Development to punch well above our weight.

Our investments in rural America alone are not enough for rural communities to be successful. Rural Development's role is greatly enhanced by partnerships and leveraging with the private sector. This private capital input fosters the development of local leadership that is essential for sustainable development.

- Finally, USDA Rural Development's 40-plus programs should be viewed as a toolkit, not as ends in themselves. Most of them are relatively small in terms of budget authority. Collectively, however, they provide a highly flexible portfolio of management strategies and funding options with which to address the unique circumstances of the individuals, businesses, communities, and non-profit organizations we serve. USDA Rural Development's program matrix is sequential in nature:

Grant programs play an important role in providing initial encouragement to entrepreneurs, technical assistance, feasibility studies, and marketing research. They also provided needed assistance to very low-income individuals and communities.

Once beyond the exploratory stage, however, most economic development projects should be expected to graduate from grants to USDA Rural Development's direct and, especially, guaranteed lending programs.

The ultimate goal -- the true test of success -- is the ability of our partners to operate without government intervention.

Vision

With these considerations in mind, let me offer some brief observations about the opportunities facing rural America today.

Rural America is incredibly diverse. It includes some of the most rapidly growing jurisdictions in the country, areas gripped by long-term decline, and everything in between. One size does not fit all. In general, however, it is clear that the evolution of modern technology has opened unprecedented new opportunities for rural development.

Broadband

From the beginning, the President has recognized the importance of broadband technology to our rural communities. The President stated, "...we must bring the promise of broadband technology to millions of Americans... and broadband technology is going to be incredibly important for us to stay on the cutting edge of innovation here in America."

Broadband is creating the most radical decentralization of information since the invention of the printing press. No longer do large organizations need everyone in the same building to communicate. Administrative structures, manufacturing, and distribution can be decentralized. Both businesses and individuals have unprecedented mobility. The spatial organization of America is being re-engineered.

This process is still in its early stages, but it is clear that rural communities are becoming potentially more competitive than they have been in many decades. Let me offer two polar examples. The Havasupai Tribe, who live in the Grand Canyon, is the last community in the continental U.S. to get its mail by pack mule. Last year, however, we presented a Community Connect broadband grant to provide wireless broadband service. This will enhance medical, educational, and recreational options for the community and will permit tribal businesses to go online.

At the other end of the size scale, the recent growth of the ethanol industry has been explosive. A recent study conducted by Informa Economics for USDA Rural Development demonstrates that information technology, especially the Internet, has been a critical factor in enabling this growth. The information revolution has lowered the cost of obtaining management expertise and access to market information. It has also made it possible to develop distributed control systems that allow small and mid-size plants to slash administrative costs and benefit from economies of scale in technical support and process controls.

What is emerging in ethanol -- thanks to information technology -- is in fact a franchise model that offers significant opportunities for local investment, ownership, and wealth creation in rural communities.

One could multiply such examples many times over. From the Havasupai of the Grand Canyon, with a population of 503, to the fast-growing biofuels industry and everything in

between, broadband is leveling the playing field. When business can be conducted virtually anywhere one has access to a modem, traditional barriers of time, space, and rural isolation will indeed be a thing of the past.

Energy

A second great opportunity for rural America today is energy. Oil at \$60 a barrel is an enormous challenge for both consumers and industry. But it is also an invitation to innovation and investment. Alternative energy has been a recurring priority for the Congress and Administrations of both political parties for over 30 years. The barrier, however, has always been price. Oil at \$60 a barrel dramatically changes the equation.

Ethanol, biodiesel, wind, solar, geothermal, hydrogen, and expanded production of conventional fuels are all part of the emerging new energy economy. Ethanol is perhaps the most familiar example.

Ethanol, incidentally, provides an excellent illustration of the flexible nature of USDA Rural Development's program "toolkit." We have extended support for the development of ethanol from across nearly the full range of our business lending programs:

| USDA Rural Development: Investments in Ethanol | | |
|---|---------------|---------------------|
| FY 2001-05 | | |
| Programs | Number | Amount |
| Business and Industry Guaranteed Loans | 7 | \$66,160,923 |
| Value Added Producer Grants | 61 | \$12,644,133 |
| Section 9006 | 6 | \$2,800,000 |
| Rural Economic Development Loans | 4 | \$2,100,000 |
| Rural Business Enterprise Grants | 9 | \$631,900 |
| Rural Business Opportunity Grants | 2 | 99,900 |
| Total | 89 | \$84,436,856 |

Apart from the role of USDA Rural Development, however, ethanol is also an important case study because it is an inherently distributed resource. The feedstock is an

agricultural product, usually locally owned. Transportation costs and the need to avoid excessive impacts on grain prices create a structural bias toward moderate-sized plants, with localized sourcing. This, in turn, is facilitated by the franchise model made possible by advances in information technology.

While ethanol represents an important new market for corn -- and a few years hence, other feedstocks as well -- the more important issue is ownership and wealth creation. The real return on ethanol is not just an extra 5 or 10 cents a bushel to the farmer, welcome though that is. The greater return is from the value added downstream, and this accrues to the investor/owner of the plant. A key question for rural America, therefore, is whether we will develop investment vehicles and business models that encourage local ownership and control, with the purpose of creating wealth and economic opportunities in the local community.

This is a subject that we are beginning to explore in some detail within USDA Rural Development. I have suggested it as a research topic, and it is an issue I have voiced in many meetings around the country. It is certainly a subject about which I look forward to a continuing conversation with you. The potential of the new energy economy for rural America is immense. Wind, solar, biodiesel, and biomass fuels are, like ethanol, inherently distributed resources. This is an opportunity for investment, economic growth, and wealth creation that rural America cannot afford to miss.

Congress recognized this opportunity in 2002 when it created the first-ever Energy Title in a Farm Bill. We have aggressively implemented the Section 9006 Renewable Energy and Energy Efficiency Program. We have, in addition, made energy development a priority in our conventional business and cooperative programs as well. We look forward to working with you to sustain this progress in the years ahead.

Place

Finally, Mr. Chairman, rural America is again becoming a destination of choice for millions of our fellow citizens.

The urban-rural balance has shifted repeatedly in the past. The great cities of today are not immutable; they were built from the late 19th through the mid-20th centuries largely as a product of the transportation economies of the railroad and steamship age. Then, after the Second World War, the internal combustion engine produced a great wave of decentralization that is continuing today.

Through all these shifts, rural communities retained certain comparative advantages: a lower cost of living; peace and quiet; a clean environment; a saner pace of life. These are not mere abstractions; they are tangible, marketable advantages. The countervailing factors, however, have traditionally been rural isolation, the lack of jobs, and lack of access to “urban” amenities. As a result, until recently, rural communities have on balance steadily lost ground.

As I noted before, however, modern transportation and communications are again shifting this balance in ways highly favorable to rural communities. Rural communities that can provide jobs and a future for young people, quality health care, good schools, shopping, and recreation are great places to live.

Yet another important part of our mission, therefore, is providing the infrastructure and community facilities that rural communities need to compete: electric, telecommunications, and broadband service; critical access health care; water and wastewater systems; fire and emergency services; day care; and distance learning. These improve the environment for business investment and economic growth. They enrich the lives of residents. They level the playing field and leverage the natural assets of rural communities -- and over time, the impact will be significant.

The test is clear. Many members of this Subcommittee have roots in rural communities. As you know, one of the longstanding problems has been the inability of rural areas and small towns across America to retain young people, particularly those with advanced educations. In my own case, I was one of the very few -- perhaps the only -- college graduate in my class to return to Marcus to a family farm. I suspect several members of this Subcommittee have shared a very similar experience.

If there is a single, irreducible test of our success or failure as an economic and community development organization, it is this: can we build rural communities to which

our own children are eager to return? If we can do that, Mr. Chairman, we will have accomplished something very significant indeed.

I know that you share my commitment to the future of rural communities, and I look forward to working with you to seize the many opportunities that rural America enjoys today. This concludes my prepared statement, and I will be happy to answer any questions you may have.

Thank you.